A Work Project, presented as part of the requirements for the Award of a Master Degree in Management from the NOVA – School of Business and Economics.

Economic Model and Organisational Governance of Santar Garden Village Lda.

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A Project carried out on the Master in Management Program, under the supervision of:
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22-05-2016

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Abstract

This project focusses on the business plan and organizational governance of Santar Garden Village (SGV), with reference to my internship carried out at Viabiliti Financial Management. The economic model identifies the company's strengths, weaknesses, and profitability, in the hopes of achieving efficient short term business practices, and applying to an interest free loan (PT2020). The organizational governance of the company is equally important, due to the fact that SGV will not be structured and managed as a traditional professionally run business. SGV is a family business, and hence power roles, fair process, and succession, are tackled themes.

Key Words: Santar; Fernando Caruncho; Tourism; Family Business

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1.1 Internship and Company

As part of my Direct Research Internship, I worked full-time at Viabiliti Financial Management (VFM), a consulting company founded in 2006 that specializes in tourism and renewable energies. The company is responsible for making the Santar Garden Village (SGV) application to a subsidized EU funding program (PT2020). As a family member, the importance of the internship went beyond solely learning for the benefit of the thesis. This paper is split into the economic model and the organizational governance of the family business. Without the first, the later could not be done effectively. The internship opened doors to the technical aspects of the company, allowing for the formalization of governance practices in line with the goals and objectives supplied by the economic model, which is of great value to the company and the family. In addition, the internship allowed for inside information on the project's application, and it speeded up communications between the consultants and the family. My tasks at VFM were: to gather all contracts, licenses and budgets, as evidence of the project having legal forward momentum; of executing a credible market study, with basis on real empirical data; and bundle this information into a format that agreed with the funding program criteria. Total understanding of the PT2020 was crucial. This meant reading their regulation manual, understanding their project approval scoring system, fully grasping the laws concerning goods and services allowed for funding, and understanding the rates and payback periods of the loan.

1.2 Santar & Project

Santar Village, located in the heart of the Dão region, with approximately 1,000 inhabitants, is rich with material and immaterial cultural-historical heritage. Its closest city is Viseu, only 10km away, with 98,000 inhabitants and with numerous cultural attractions. The House of Santar, is a 17th century house owned by the Vasconcelos e Sousa (VS) family, overlooking the "Serra da Estrela" in the Nelas County, and one of the main attractions of the Santar Village, for its ancient gardens, baroque architecture, vast landscapes, and award winning wine. The concept for SGV was first thought of in 2013, with the goal of preserving and adding value to the village of Santar by ways of involving other garden houses in the village into a context that can be appreciated by third parties. With the guidance of Fernando Caruncho[1], an internationally known landscape architect, famous for his minimalist and symmetrical style, SGV will fuse together the already inherent traditional gardens of the House of Santar (2), with 3 other partnered garden houses in the Village. Also, the Misericordia de Santar (religious institution with a beautiful garden) and the Paço dos Cunhas (restaurant and garden), both want to include their gardens in the project. The strategic alliance with the main houses of the Village creates a bundled experience for the visitor, increasing the scale of the project and taking advantage of the natural cultural givens in the Village. Caruncho understood that a lot of the beauty and authenticity was already inherent, and hence his vision for the project aims to preserve and add value to the existent authenticity. Caruncho wants to heighten water elements, vines, and add cosmos plants, in the 5 gardens, all of them with a varied plot of land with vines to be produced by the Casa Agrícola Vasconcelos e Sousa (CAVS) and distributed by SGV. All gardens are descending, allowing for a flow of water from the north garden well to pass through every garden in the village. This, helping with irrigation, but most importantly giving visitors the beautiful view of water channels flowing in many directions, leading them from garden to garden. The ground floor of the Santar House will be transformed into the project's store and interpretive center, displaying all the treasures the house possesses. Visits to the house's chapel, ancient kitchen and chariots room, will also be part of the tour. Horse-Chariot rides will be made available, further expanding the tour around the Village's landscapes, and aiding disabled visitors.

[1] **Caruncho Garden & Architecture.** 2016. Fernando Caruncho y Asociados. http://web.fernandocaruncho.com/en

1.3 Vision, Mission, and Strategic Objectives

- The Company’s Vision is divided into two categories: Invest in a unique experience that aims at creating value, in the medium and long run, to the end consumer; Include the Village and the people of the Village, and create incentives for economic growth. - The company’s mission is to achieve a reputation for excellence, where various unmatched touristic experiences are appreciated, and where rich and innovative concepts are created for the enjoyment of visitors. The company will strive to maximise the quality of the services provided by taking advantage of the promotors inherent knowledge, and of the existent fame of the products, houses and architect.
- The company’s strategic objectives by 2021 are: to achieve roughly 19 thousand annual visitors, 40 percent being foreigners; Invest in a varied mix of products offered at the store, and in a unique marketing strategy; Create 7 direct job positions, where at least 1 of them is qualified (University degree); and achieve a total of €505637 in turnover, and an EBITDA of €179,124.

2.1 Centre of Portugal and Tourism Market

The Center of Portugal consists of 100 Municipalities, and has an area of 28,199km², the second biggest zone in Portugal. The region shares a land border with Spain of 270 km, and has a population of 2,327,755 inhabitants. It possesses 22 percent of the total country’s population but generates only 18.4 percent of national wealth. The region has higher exports than the countries mean, with a significantly positive balance of trade (RIS3 Centro; 2014). The level of qualified education for people between the ages of 30 and 34 scored an inferior result than the national mean and in Europe. In addition, the rate of leaving secondary school is 14.7 percent, which is much higher than the European mean, but the smallest percentage per region in Portugal. The jobs market in the Centre of Portugal is the nation’s most favorable region, having the highest employment rate in the country, including the highest employment rate of women (RIS3 Centro;

2014). The major industries in the Centre region include: Agriculture, Forest, Sea, Materials, Tourism, Health/wellbeing, and Biotechnology. All but the tourism sector increased in gross value added (GVA) between 2004 and 2011, the major increases occurring in the Sea and Biotechnology sectors. Tourism GVA decreased from 12.5 percent to 11 percent, a strong indicator of the effect that the economic slump had on the industry this past decade (RIS3 Centro; 2014). The Centre of Portugal is Portugal's preferred region to be visited by Portuguese individuals for the duration of one-night. In 2015 4.5 million Portuguese residents visited for one night the Centre of Portugal (RIS3 Centro; 2014). The region's major advantages are: Their quality accommodation, having 12 historical villages, 27 unique Shale villages[2], 18 largely visited Portuguese typical spas, and 53 blue flagged beaches (RIS3 Centro; 2014).

2.2. Competitive Analysis

The website provided by Turismo de Portugal (visitportugal.com) and the Statistic of Portugal website (INE) were important sources to gather information on future competitors. The main criteria for choosing future competitors was their similarity to SGV: selling garden visits, historical house visits, and wine tourism. All chosen competitors are located in areas distant from regional airports. Between them, on average, they are 100km away from a major city. Santar, slightly above average, is 130km away from the city of Porto[3]. SGVs first competitive action was to register their brand name and logos nationally, for brand security and for commercial use, both in the English and Portuguese language. The Garden houses chosen for the competitive study were: Fundação Casa Mateus, a traditional house located in Vila Real in the north of Portugal, with Baroque architecture, gardens, a chapel, and rosé wine (**72,540** visitors in 2014). Casa de

[2] Built from dark stone and located in the heart of the country, Portugal's mountain villages have witnessed more than 900 years of Portuguese history

[3] **DistanciaCidades.com.** 2016. Unknown. http://pt.distanciacidades.com/calcular?from=Santar%2C+Nelas%2C+Portugal&to=porto. (accessed April 26, 2016)

Juste, located in Lousada, a small secular house, with baroque architecture, offering workshops, tours and accommodation (**2,000** visitors in 2014). Quinta da Aveleda, a wine producer, with various gardens with artistic and classic influences, located in Penafiel (**24,000** visitors in 2014). Quinta dos Loridos, located in Leiria, a historical wine and garden house with famous Budha sculptures (**200,000** visitors in 2014). Lastly, belonging to the Portuguese state, Paço Duqual, located in Vila Viçosa, a Royal Palace with a vast cultural patrimony and gardens, offering art, and tours of the royal chambers (**41,000** visitors in 2014).

SGVs competitive advantage is its scale. The project integrates a Village where the visitor not only experiences the services and products supplied by SGV, but experiences the authenticity of a traditional Village in the “beira alta”, whose economy for centuries was stimulated by the charity of noble houses, and wine agriculture. Having taken the first stop to invest in the Village, where it unveiled the authenticity and potential of it becoming a future melting pot for various tourist enterprises, if executed and promoted efficiently, the free economy will then take care of the rest. Investors with vision will see that there are markets with unsatisfied demand, and hence the scale of the destination, because it ambitiously looks to make the Village the attraction, is unique and limitless. SGV, in light of this, will therefore combat seasonality more efficiently, where potential for a large experience goes beyond what SGV offers, suitable for all types of seasons.

2.3. Potential Demand and Target Segment

With the most recent data available on the statistics of Portugal website (INE[4]), a rough estimate of the total potential demand for SGV and for the above established 5 competitors, was calculated by summing: the resident population (<75 years) in the destination’s county, with the number of

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[4] **Instituto Nacional de Estatística.** 2016. INE. https://www.ine.pt/xportal/xmain?xpgid=ine_main&xpid=INE. (accessed February 1st, 2016)

Portuguese and Foreigner guests staying at touristic accommodations in the destination's county. Calculating the potential demand in this manner was the most efficient way possible, considering that the statistics of Portugal (INE) does not specify in museums or garden visits. Once the potential demand for each competitor was estimated, dividing the number of visitors in 2014 for each competitor by the potential demand, gave for each competitor a conversion rate percentage. The mean between all 5 conversion rates gave the conversation rate for SGV (74 percent), which multiplied by the SGV total potential demand, gave an estimate number of visitors of 21,210, as displayed on table I. On average, according to a market study visible on appendix (APX. VI p. 23), at least 25 percent of tickets are non-paying, hence out of 21,210 visitors 15,908 would be paying visitors. SGV therefore estimates that in 2018 they will have around 15 thousand paying visitors, increasing from that figure upwards to around 19 thousand by 2028. SGV looks to target various segments: cultural tourism, leisure, nature, health/wellbeing, families, small groups and wine tourism. SGVs target consumer profile is from a medium to high class, both nationally and internationally, looking for high value added products, and artistic innovation.

Table I

Garden Houses	Municipality	Total Potential Demand	Number of Visitors 2014	Conversion Rate %
Casa de Mateus	Vila real	83486	72540	87%
Casa de Juste	Lousada	47138	2000	4%
Quinta da Aveleda	Penafiel	203702	24000	12%
Quinta dos Loridos	Leiria	203702	200000	98%
Paço Ducal	Vila Viçosa	24418	41000	168%
SGV	Nelas	28740	**21210**	**74%**

2.4 SWOT Analysis & TOWS Matrix

A SWOT analysis is an essential framework for any company in their initial stages of planning. It raises awareness about both internal and environmental factors affecting the company, so that financial and operational objectives are set, and strategies to accomplish set goals planned (Team

FME; 2013). At VFM, I learned that a SWOT analysis should be followed by a TOWS Matrix[5], further specifying the framework, gaining deeper and pragmatic knowledge on how the company could manage their negatives with their positives.

A TOWS Matrix, as shown below, is a variant of the SWOT analysis. It identifies external opportunities and threats and compares them to the company's internal strengths and weaknesses. The framework has a more pragmatic and problem solving approach, that is of great value to projects (such as this one) that are soon to be operational. The *Maximise* segment asks the question: How can the company use their strengths to take advantage of their opportunities? The

[5] **CEO Business Diagnostics.** 2016.Business Diagnostics. http://www.ceobusinessdiagnostics.com/wp-content/uploads/2015/06/TOWS-Strategic-Alternatives-Matrix.pdf. (Accessed April 20th, 2016)

Strategic segment asks: How can the company take advantage of the strengths to avoid real and potential threats. The *Take-Advantage* segment asks: How can the company use their opportunities to overcome the weaknesses they experience. Lastly, the *Risks* segment asks: How can the company minimize weaknesses and avoid threats?

Maximise (Opportunities + Strengths): Cultural authenticity is an essential factor for satisfying demanding cultural markets in Portugal; The experience and know-how of promotors, will be used to sell and create services to the considered segments strategic to the company (family/leisure and well-being, cultural tourism); All the key factors contributing to the project (inherited patrimony, mediaeval architecture, landscapes, poetic richness, cultural program, complementary services and products sold) will result in longer visits and will be important contributors to fighting low season slumps; Uniqueness and hard-to-copy factor (an entire village transformed into a garden) meets the demand of differentiated niche markets, that stay for longer durations, contributing as a result to the development of the region.

Strategic (Threats + Strengths): High costs of hiring qualified staff will result in a more personalised and quality oriented service; The patrimonial content, the cultural program, and the knowledge provided by the landscape architects – predicting the adaptation of the gardens to seasonal changes - will allow for year round demand, fighting seasonality; The uniqueness and hard-to-copy factor that the project has will result in a large amount of visitors, translating into bigger business opportunities for regional companies, such that will potentially lead to more and better accommodation and restaurants in Santar; The location of the project (deep in the Centre of

Portugal) will cease to be a threat due to the name of the famous landscape architect (Caruncho), whose works are internationally recognised and have a large fan base[6].

Take-Advantage (Opportunities + Weaknesses): The large amounts of water needed for irrigation will be an important operating cost, allowing for the creation of a unique experience for visitors; The dispersion of the gardens will supply a different experience to visitors, with various attractions and services to exploit, other than the ones included in their ticket; The fact that the project is dependent on good climatic conditions might not be that big of an importance due to the fact that it is precisely during low seasons (end of October and the beginning of Spring) that demand for nature tourism is at its highest; To combat the winter season where cosmos plants don't bloom, Carauncho designed an alternative to the empty cosmos fields: ploughing the fields with symmetrical patterns[7]; The museum area, and the excellence of the products commercialised in the store will be an important factor contributing to the return of visitors, and to incentivise visits when weather conditions aren't the most favourable.

Risks (Threats + Weaknesses): In attachment to the projected success of the project, comes the need to satisfy the parallel demand for quality accommodation in or around the village. There are no hospitality services in Santar and hence there will be excess demand for such services; The fact that the project satisfies the criteria of a demanding cultural market, could be limiting due to the lack of qualified labour resources in the region. The company's investment in qualified labour, however, will contribute to a service in line with its strategy, allowing visitors to enjoy a knowledgeable guided tour; Despite the quality of the project and all the factors contributing to turning the village into a destination, the highway tolls and the lack of a regional airport are a

[6] Fernando Caruncho is often invited to host lectures and speeches at prestigious Universities. He is known for his book - *Mirrors of Paradise: The Gardens of Fernando Caruncho* -.
[7] Idea is influenced by *Japanese dry rock gardens* (dry landscape gardens)

disadvantage. Creating and promoting a successful brand name is important to combat these disadvantages. Promoters will have to allocate some of their resources to a successful marketing and communication strategy, guaranteeing that the reputation of the landscape architect and the richness of the patrimony, are communicated in a way that will position the company in its strategic target markets.

Both frameworks reveal that important operating costs such irrigation and qualified labour are unavoidable, and hence investing in a waterhole (water reserve) and in a thorough hiring process, in the long-term, will be beneficial for the company. Also, Marketing and Communications is crucial to advocate Caruncho's brand name and to promote the wine and other products sold in the company store, so that seasonality diminishes. Lastly, given the promoters vast networking and professional experience, they should consider ways of pitching the project to Hotel and Restaurant chains, for them to expand business to the Village or allow for franchise opportunities.

3.1 PT2020 & Project Merit Criteria and Score

In 2014 the European Commission created a partnership agreement with Portugal, joining 5 European funds (FEDER, FDC, FSE, FEADER and FEAMP), with the objective of promoting economic and social development. Portugal received 25 thousand million euros to use to fund projects that stimulate growth and employment until 2020 (PT2020; 2015). Projects susceptible for a loan have to either: develop activities in sectors with strong growth dynamics, in cultural and creative industries, with or in sectors with high technology and knowledge; Or use R&D to create new and modern goods and services (PT2020; 2015). The PT2020 program demands that the loan be repaid, with no interest, after 8 years, with an initial 2-year period of no repayment. The program clearly points out what the eligible and non-eligible expenses are; projects can have up to 25 percent of eligible expenses, totaling less than €3M. This percentage can increase depending on various criterions, up to a maximum ceiling percentage of 75 percent (SGV achieved this ceiling maximum percentage). The remaining 25 percent of the total eligible investment has to be autonomous (own capital). The maximum prize for paying back the loan in time is that out of the 75 percent of the covered eligible expenses 50 percent don't need to be repaid.

Table II	
PM Score System	
A	Quality of the Project (**30 percent**)
B	The Impact of the Project on the Competitiveness of its Company (**20 percent**)
C	The contribution of the Project to the Economy (**20 percent**)
D	The Contribution of the Project to Regional Convergence (**30 percent**)

The selection of projects is limited to the amount of funding assigned per region; but most importantly to the ranking attributed to each project, calculated through a scoring system called the Project Merit (PM). The PM is determined through the use of the following 4 criterions on Table II. Each criterion has sub-criteria that are presented in the "other annexes" for a better comprehension of the scoring system and of why SGV was given such points. The Tourism of Portugal demands that the consulting company responsible for the company's application creates, along with the business plan, a PM analysis of their own. Although the Tourism of Portugal will make their own PM analysis, understanding how and why consultants believe that the project scores the amount that they are claiming each criterion is worth, facilitates their job and deepens the analysis of the consultants. This was particularly challenging due to the extensive reading needed to understand all laws and criteria in line with the loan. Table III shows the PM score that VFM calculated for the project, giving SGV a score of: 4,130/5 points.

Table III

Criteria	A	B	C	D	PM
Weight	30%	20%	20%	30%	
Score	4,500 pts.	4,500 pts.	3,400 pts.	4,000 pts.	**4,130 pts.**

3.2 Interpretation of Financial Results

As presented on Table IV in the annex, SGVs total investment is €968,443.37, and total eligible investment for the PT2020 is €934,850.97. The difference (approximately €34,000) consists of working capital costs, and video/photography services (these not eligible for financing). Out of the total investment: 33.6 percent is exterior infrastructures, 12.5 percent is construction, 23.5 percent is equipment, and 30.4 percent is intangible investments. As mentioned in chapter (3.1), 25 percent of the total investment has to be own capital, and 75 percent of the eligible investment (the ceiling amount that SGV was able to achieve) is covered by the PT2020 program. As such: minimum own capital = €242,110.84 and PT2020 loan = €701,138.23.

SGV needs to have a realistic financial projection model in order to be considered profitable and granted a loan. How and how much income the company will generate is crucial to meet the loan's payback schedule and to benefit from the payback prize. All set prices are exempt from VAT because the PT2020 loan reimburses VAT (prices are therefore presented without it). The financial analysis, although projected until 2028, will be focused on the year 2021, the year that the PT2020 loan expects the company to have adjusted to their novelty mini boom and start being profitable. Thus, by 2021 SGVs total projected turnover are approximately €506,000. It expects to receive: 19,056 (75 percent paying) visitors and to price their tickets at €5.20, with audio guides made available for €2.56 (estimating, according to a market study, that half of daily visitors will want audio guides). Together these making up 19.3 percent of total turnover. The Santar House can receive up to 80 people, allowing SGV to create events and workshops in the Santar House. Thus, SGV will host two concerts a year: one in the spring time (partnering with *Música da Primavera de Viseu* festival) charging €5 per person; and the other in the end of the summer, hosting a weekend of concerts, both indoors and outdoors, charging €20 euros per person. It will also host wine tasting, photography and gardening workshops. These, together with the concerts, make up 19.6 percent of total turnover. SGV created a partnership agreement with the Santar horse riding centre, offering horse wagon rides and horseback riding tours. 12.6 percent of total turnover. Lastly, SGVs largest independent income source will be their store, selling their own wine, and various regional and garden related products. Estimating that the store will have an average of 15 daily clients, spending on average €15.73, give a total of approximately €230,000, 45.5 percent of total turnover. In terms of costs, SGV by 2021 will approximately have €326,513.48 in costs. These are segregated into: Costs of Goods Sold (29 percent), External Supplies and Services (42 percent), Staff (27 percent), and Other Costs (1.5 percent).

Table IX shows SGVs projected financial results up to 2028. SGV has an estimated EBITDA in 2021 of €179,123.67 and a Net Income of €67,924. A sensitivity analysis, with Sales and Services Provided reduced by 10 percent, gave SGV in 2021 a projected EBITDA of €128,560 and a Net Income of €19,936. Table V shows the results obtained from calculating the NPV and the IRR for financial projections up to 2028, for both the normal analysis and the sensitivity analysis. A WACC of 8.8 percent for 2016, shown on table VIII-B, was calculated using an unlevered Beta from the Hotel/Gaming and Leisure industry in Europe[8] and a proxy cost of debt of 3 percent. In order to separate the value of the project and the value of the loan (due to the fact that SGV has no interest paying debt), a proxy interest rate of debt was chosen as the mean between the minimum (2.25 percent) and maximum (4 percent) (+euribor) of the interest rate offered by Banks for similar projects (Turismo de Portugal; 2010). The mean was chosen because, although SGV is a project that will develop regional and national economic growth, the

[8] **Damodaran Online.** 2016. Damodaran. http://pages.stern.nyu.edu/~adamodar/. (accessed April 15th, 2016)

project is unique, with hardly any similar sources of comparison. Table VIII-A on the other hand, shows the authentic CAPM and WACC analysis for the company with no interest debt, where the WACC bears the same value as the Cost of Equity. The NPV using the proxy WACC to discount the normal analysis is 467,191.7 and the NPV for the sensitivity analysis is 127,902.9. The IRR for the normal analysis is 15.95 percent and the IRR for the sensitivity analysis is 10.99 percent. The investment is achieving more than its target yield by 2021, and the internal rate of return is larger than the cost of capital for both scenarios. Although the WACC used to discount the NPV is higher than expected (due for example to the Unlevered beta being derived from the Gaming industry in Europe), it is nevertheless typical of family businesses to plan for the future and make financial projections that are risk averse. This because of the natural will of genuinely wanting the business to have longevity, so that future generations can live better professional lives.

As for the payback period of the loan[9], table VII shows how much SGV owes the PT2020 program annually, dividing the total eligible investment covered by the program (75 percent) by 6 (number of years of repayment), amounting to €116,865 annually. Table VI shows that SGVs EBITDA on the first year of repayment (2019) is making enough money to cover their fee.

In general, SGVs expected financial model reveals results that are healthy and prosperous. The major risk is that 45.5 percent of turnover comes from the sale of wine and store products, putting pressure on the quality of the wine and the expected amount of purchased wine according to our expected amount of visitors. Furthermore, it is important to reference that the SEL Diagnostic Tool used seen in appendix (APX. II p. 4), says: secondary sources of income should not exceed 25 percent of turnover (2009). To minimize this risk, SGV, as I will later discuss, will need to increment the number of tickets sold, by ways of selling joint tickets through partnerships and

[9] Not the classical payback period witnessed in capital budgeting. Depicts the annual payback fee that SGV needs to pay inside the PT2020 framework.

protocols with other tourist companies, both in Santar and outside. Incrementing ticket sales will thus diminish the risk of secondary product dependability, which SGV needs.

4.1 Organizational Governance: Planning Ahead

"*Developing and adapting governance practise is the key to enabling the continuity of this strategic agency over time*." (167; Ward)

SGV needs to have a pre-determined organized governing structure that conforms to the founder's demands and objectives. This is an equally important step to the economic model that deals with important and sensitive planning issues. Planning organisational governance is important in any family business, but especially important for SGV in their start-up/growth phase. Founding partners will manage the business non-executively during the first stages of this cycle, and thus planning ahead is extremely important, to avoid disorganisation and to clearly label job titles and power roles. The fact that SGV is 90 percent family owned and 10 percent owned by the IN branch[10], makes the organisational structure more complex. Management and power roles need to reflect: the capital share that each founder has; the initial investment put forward by each founder; the level of risk involved; the leased patrimony; and the contribution that each founder had to the project. Only in this manner can the longevity of management and the succession of qualified family members be planned fairly.

4.2 SGV Family Members and Partner

On the 25th of March 2015, Maria Teresa Lancastre de Melo, Countess of Santar, passed away, and as previously planned, left her house and property to her two sons (14th generation): José Luís Vasconcelos e Sousa (JVS) (45 percent of SGV) and Pedro Paulo VS (PVS) (45 percent of

[10] João Ibérico Nogueira is the owner of the Linhares House/Garden in Santar, and non-executive partner of SGV.

SGV). JVS graduated from Management at HEC Lausanne in 1982, and today is general manager at the Groupe Edmod de Rothschild Portugal. JVS in 2014 underwent a Post-Graduate degree in *Gardens and Landscapes* at the UNL, where most of the ideas for the project PVS studied Oenology at the University of Montpellier, and worked as the main oenologist for the Casa de Santar wine. Today he is a shareholder and main oenologist at the Herdade do Freixo and CAVS. JVS and PVS together have 7 children (see genogram in appendix APX XVI p. 30) JVS and PVS agreed on September 2015 to lease to SGV three zones on the ground floor of the Santar House and their gardens for 20 years. JVS and PVS are shareholders at CAVS, the company producing SGVs wine, signing a contract in February 2016, giving SGV exclusive purchasing rights. JIN (SGV partner) graduated from Economics at Católica University in Brazil, and has a vast entrepreneurial experience, highlighting his administrative position at Banco Mais and his non-executive manager role at Adventure Land. JIN is married to Sara IN, they have two children, and own the Linhares house and garden in Santar. Their garden was leased to SGV for a period of 20 years, signed on March 2016.

4.3 Governance and Fair Process

In family business ventures, conflicts unavoidably arise about the appropriate distribution of the advantages gained, and about the principles that should govern the solution of those conflicts (Heyden; 2005).

SGV needs to have a pre-determined first and second-generation organisational structure, built with principles of fair process, for the sake of power clarification, conflict avoidance and general management efficiency. Although SGV will experience significant changes that will create the need to re-organize the company's organizational structure (between their start-up/growth phase and their future expansion phase), a short-term structure with fixed and variable laws has been constructed and depicted as table XI[11]. The table shows the growth-phase organisational structure (influenced by existing contracts between founders and the company, discussions with both family members, and with thesis mentor). Additional details to the table include: The Chairman has to be a Board Member; The Chairman has the power to solve disagreements and veto any decisions he/she believes won't be beneficial to the company; Board Members have to meet at least once every three months; the Chairman is responsible for setting and leading meetings; when a Board Member passes or leaves, the position is given to the spouse for the remaining governing time until elections; Board Members will receive compensation in the form of wine or other products/services; Advisory Board should be represented by experts in wine, gardens, tourism, law, social media, and have at least one international member; Advisory Board will meet every 6 months and will be compensated with wine or other products/services.

Table XI

Organizational Structure A

Start-up/Growth Phase (2016-2046)	**Governance**
- 1 Non-executive FAMILY Chairman: JVS or PVS branch	JVS will be Chairman for the first 10 years. Post this time, Chairman position will alternate every 3 years between the JVS Board Member (BM) and the PVS BM
- 3 non-executive Board of Directors (BD): 1 JVS rep; 1 PVS rep; 1 JIN rep.	Founding partners will be on the BD for the first 10 years. Post this time, every 6 years, each branch (1st & 2nd) generations, elects a BM
- Advisory Board: 5 max	Chosen by the BD and scheduled for reassessment every 3 years
- 1 Executive General Manager	Chairman or appointed by the Chairman
- 1 Executive Marketing Manager; 1 Store Manager; 2 Guides; 2 Gardeners	1/3 having undergraduate University degrees
- Family Meetings	Annual meeting presentation: results and goals

[11] Appendix APX. XV p. 31 depicts the possible organisational structure for the company's future expansion phase

Table XI was constructed with fair process principles, which at their core reflect factors such as: capital share, initial investment, and the value of leased patrimony. On the surface however, as an article on fair process points out, commitment to fairness and the changeability of decisions are crucial in a family business (Heyden; 2005). The use of an advisory board, ranging from varied areas of expertise strategic to the business, will bring this element of changeability, and quite possibly help solve decisions coming from irrational foundations, typical in a family business. In addition, voting on who will be Board Member is a right that only University graduate family members have, post the ten year period of no voting. Voting has to be unanimous within each family branch, using meritocracy, as a measure of whom deserves the position more.

4.4 Succession in the Family

"*Planning by the current generation for the benefit of the next is of the essence…Without a new vision by the next generation that pulls the company into the future, there is no commitment to continuity*" (Poza 2009)

Educating and motivating the next generation is essential to guarantee that the company will remain a family business in the future, and that it is managed by high-performance family members. SGV will only consider next generation family members for the Board of Directors, if they have at least a University degree and 10 years of working experience elsewhere. The VS family council (in the expansion phase) will have a separate organisational structure, responsible for supporting and educating younger generations. SGV reserves top management positions for family members only, and hence improving the likelihood of there being a family member who can become a successful CEO is crucial. Family council responsibilities include: planning paid summer internships, exposing them to entrepreneurial experiences and practical work; Inviting them to observe board meetings; involve them in family council work; and sponsor high academic achievers with part of their University fees (PWC; 2015). Although choosing the CEO is a right that only the family has, the Board should help with succession planning. They can advise the family council, prepare for emergency succession, and most importantly assist with leadership transition.

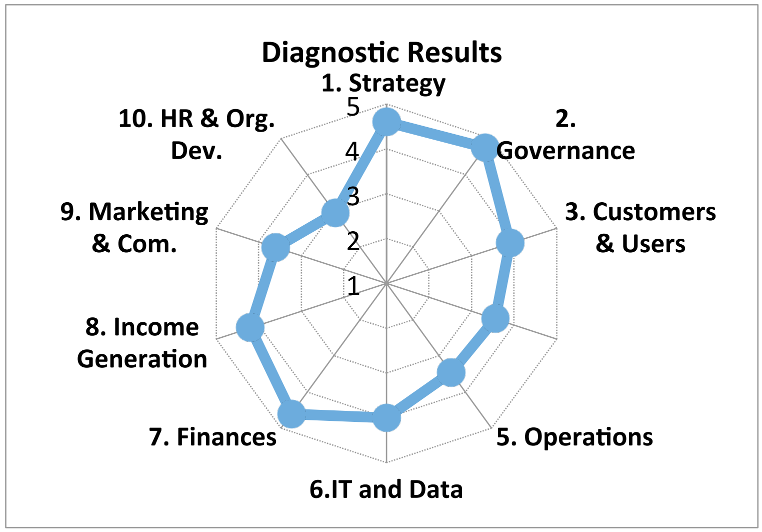
(5) Next Steps

SGVs main source of income is not projected to come from tickets sold. The large amount of ticket discounts, and the competitive choice of the price of tickets, puts the company in a situation where it is dependent on the store to increment sales, and has to find alternate ways of selling tickets. SGV needs to have a strong online ticket presence, recruiting the services of Ticketline/ BOL or have a presence on the *Direcção-Geral do Património Cultural* website. Additionally, SGV should create partnerships with cultural tourism companies where combined ticket options are arranged, taking advantage of established demand, and offering visitors a more diverse ticket. The *Rota do Douro,* for example (Portugal's most famous wine tourism cruise experience), has as one of their destinations the municipality: *Régua,* only an hour away from SGV. Negotiating a joint ticket experience, where an extra day visiting a garden/wine Village, only a short bus ride away, would be advantageous for both parties. Visitors would experience a landscape reference Village and a new wine region, just by leaving the cruise in the morning and being back in the afternoon. The fact that Santar lacks quality accommodation would not be a problem with this type of partnership because visitors are staying at their cruise. Similarly, 2 more joint ticket experiences should be negotiated, one with the Grão Vasco museum in Viseu (86 thousand visitors in 2015, and only 10 minutes away from Santar), and one in Santar with the *Sociedade Agrícola de Santar,* allowing for a tour of the beautiful Santar Wine wine cellar with access to the oak barrel room. As identified in the competitive analysis, SGV has as their main competitive advantage their potential scale. The project embraces a historic, noble, and wine driven Village, and has taken the first major step in terms of vision and investment, revealing market opportunities and future unmatched demand. With this said, a great deal of intervention on SGV's behalf is needed for the economy to "operate freely". Actions such as: pitching the project to restaurants and hotels; facilitating and showcasing strategic infrastructure worth investing in; and communicating results, is crucial to spark interest and raise awareness about business opportunities. The discrete nature of the location and the infamous reputation of the interior region, make investing in Village (in the early stages of development) a risky endeavor. SGV needs to get the ball rolling, raising awareness about the scale and potential of the project, and sharing goals, missions and expectations.

In terms of family governance, SGV founders should further develop the two organisational models, by way of constructive feedback discussions, so that legal documentation stating power roles and governance practices are defined. Promptly communicating governance decisions to all involved family members should be done once such documents are formulated. The fact that family members represented as Chairman in the growth phase or CEO in the expansion phase, have the power to veto decisions and therefore have signing authority, is something that needs to be clarified to non-family members in advance.

For a detailed short-term company analysis, the use of the Diagnostic Tool Matrix, developed by Social Enterprise in London (SEL), and taught in my *Management of NGO'*s class, will help provide an internal company analysis, facilitating the ability to self-reflect, identify gaps, and plan ahead. Although the Diagnostic Tool was meant for not-for-profit organizations, minor adjustments can be made to suit a for-profit start-up company. The Matrix presented on the next page, reveals that SGV in the upcoming months/year should shift their focus to HR &

Organizational Development, Operations, Marketing and Communications, Social & Environmental factors, and Customers and Users. At VFM we focused on the number of jobs and salaries, leaving out important HR management procedures such as: Appraisal systems and job descriptions. These should be considered before hiring staff, because it increases qualified labor demand. In terms of Operations, SGV needs to negotiate and settle who their suppliers for the store and gardening products will be, so that operational efficiency and quality is achieved. Environmentally sustainable energy systems, according to the tool, should be improved. Santar would benefit from mounting solar panels, which would in turn be a good incentive and example for an underdeveloped Village. Office equipment and waste should similarly be managed and disposed of in a sustainable manner. Marketing and Communication strategies, although they scored almost 4 points on the Matrix, along with operations, are the most important. If conducted effectively, it will combat seasonality, distant location factor, help reach all target segments, increment store sales, and incentivize other businesses to operate in Santar. Lastly, for Customers and Users, although SGV is not yet operational, the tool serves as a reminder to plan feedback strategies, such as creating a TripAdvisor account, Facebook page, Instagram, and a company website, paying attention to customer ratings and comments. In parallel, given the importance of the wine produced by CAVS, the presence of the wine in magazines and awards ceremonies should be supported, so that further knowledge on the quality of the product is achieved, and in consequence strategies to improve implemented.



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(7) Annex

Table IV. Eligible Total Investment

Total Investment	
Exterior Infrastructure + Construction	430.214,25
Equipment	220.146,72
Intangible Investments	284.490,00
Total	934.850,97

Table V. NPV & IRR with Debt

Normal Analysis		
NPV	9%	438547.7
IRR	WACC	15.86%
Sensitivity Analysis		
NPV	9%	108029.9
IRR	WACC	10.89%

Table VII. Payback

Years	Debt at Beginning of Period
2015	0
2016	393566,9625
2017	656966,1486
2018	701138,2291
2019	701138,2291
2020	584281,8576
2021	467425,4861
2022	350569,1146
2023	233712,743
2024	116856,3715
2025	0

Table VI. NPV & IRR with Proxy Debt

Normal Analysis		
NPV	8.8%	467,191.7
IRR	WACC	15.95%
Sensitivity Analysis		
NPV	8.8%	127,902.9
IRR	WACC	10.99%

Table VIII

CAPM & WACC 2016

	NO DEBT - A -	PROXY DEBT - B -	
Euribor 6 months	-0,00134	-0,00134	German Bund 30Y
Risk-free 30 YGB	0,00833	0,00833	Hotel/Gaming/Leisure Unlevered Beta (Damodaran)Europe
Beta Unlevered	0,70	0,70	Levered Beta = Unlevered Beta*(1+(1-tax)*(D/E))
Beta Levered	0,70	2,46	European Stoxxx 2016 Implied Total return 10-15%
Expected Market Return	0,125	0,125	
Corporate Tax	0,225	0,225	
D/E 2021	0,00	3,27	
D/V 2021	0,00	0,77	
E/V 2021	1,00	0,23	
Interest rate Portuguese Banks	0%	3%	Linha de Crédito ao Investimento no Turismo (2,25% min 4% max) + euribor
Cost of Equity (Re)	9%	30%	Cost of Equity = Rf + Beta*(E(rm)-Rf)
Cost of Debt (Rd)	0	3%	Interest rate for touristic projects + Euribor
WACC	9%	9%	WACC = E/V*Re+D/V*Rd*(1-tax)

Table IX. Results Demonstration

Results

SGV Nelas		2014	2015	2016	2017	2018	2019	2020	Important year 2021
Sales and Services provided						152,850	427,143	471,548	505,637
Cost of Merchandise Sold and Materials Consumed				0	0	27,239	80,202	89,218	95,530
Supplies and External Services		7,940	9,915	25,680	32,160	51,431	117,083	128,886	138,007
Staff				0	0	34,930	85,173	86,536	87,921
Other Expenses and Losses		4	292	0	0	1,528	4,271	4,715	5,056
EBITDA		-7,944	-10,207	-25,680	-32,160	37,720,71	140,413,47	162,192,34	179,123,67
Expenses on Depreciation and Amortization						58.885	141.325	141.325	108.624
EBT		-7,944	-10,207	-25,680	-32,160	-21,165	-912	20,867	70,500
Corporate Tax	*22,50%*	-54	0	0	0	0	0	0	-2,576
Net Income		**-7,998**	**-10,207**	**-25,680**	**-32,160**	**-21,165**	**-912**	**20,867**	**67,924**
Cash Flow						**37,721**	**23,557**	**45,336**	**59,691**

	2022	2023	2024	2025	2026	2027	2028
Sales and Services provided	513.727	521.947	530.298	538.783	547.403	556.162	565.060
Cost of Merchandise Sold and Materials Consumed	97.058	98.611	100.189	101.792	103.421	105.075	106.757
Supplies and External Services	140.207	142.442	144.713	147.021	149.365	151.747	154.167
Staff	89.327	90.757	92.209	93.684	95.183	96.706	98.253
Other Expenses and Losses	5.137	5.219	5.303	5.388	5.474	5.562	5.651
EBITDA	181.997,65	184.917,62	187.884,30	190.898,45	193.960,82	197.072,19	200.233,35
Expenses on Depreciation and Amortization	62.842	62.842	62.842	49.831	31.405	31.405	23.160
EBT	119.156	122.076	125.043	141.067	162.556	165.667	177.074
Corporate Tax	-26.810	-27.467	-28.135	-31.740	-36.575	-37.275	-39.842
Net Income	**92.346**	**94.609**	**96.908**	**109.327**	**125.981**	**128.392**	**137.232**
Cash Flow	**38,339**	**40,594**	**42,893**	**159,158**	**157,386**	**159,797**	**160,392**